

A Work Project, presented as part of the requirements for the Award of a Masters Degree
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The importance of succession planning in family-owned Small and Medium Enterprises
in Portugal

João Carlos dos Santos Subtil

Student Number 1531

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Professor Rita Campos e Cunha

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1. ABSTRACT

This work project addresses the importance of succession planning in family-owned Small and Medium Enterprises (SMEs). This is directly related with Human Resources Management (HRM) given that there is an HRM long term vision in order for the succession to be planned on time and benefit the companies. This study focused on SMEs since these are the entities that have a minor focus on HRM practices.

A total of **22** in-depth interviews were conducted and analyzed. Selected SMEs owners/managers and successors/antecessors were interviewed with the purpose of acquiring more insight on the level of succession planning, using a qualitative methodology from which the process of succession was derived.

This study unveils that the first step in this process is related to the definition of criteria to be a good successor, followed by the choice of possible successors, being the children the natural successors, but also considering other potential ones, and finally some considerations on the future of these companies.

KEYWORDS: Succession planning; Family-owned; Small and Medium Enterprises; Human Resource Management.

2. INTRODUCTION

This work project aims to investigate succession planning activities in family-owned Small and Medium Enterprises (SMEs). The study focuses on Human Resources Management (HRM) factors, such as advantages and disadvantages of succession planning, the exclusion of female heirs, the preparation of the successor with effective tools to manage a company and the consideration of whether the successor has previous knowledge/experience with the company. This study uses a qualitative methodology, to analyze these issues in family-owned Small and Medium Enterprises, representing several different industries, such as wood, furniture, accounting, metal, steel, construction, chemical, hotel, marble, ceramic and textile.

This work project starts with the Literature Review, followed by methodology, results and, lastly, a discussion.

3. LITERATURE REVIEW

3.1. Human Resources Management in Small and Medium Enterprises (SMEs)

“Small and Medium sized enterprises (SMEs) have been treated as second class citizens by authors in the human resource management literature for too long.” –

Heneman and Tansky (2003, pp 299).

Over the last years, formal HRM tools have been gaining importance within large corporations. Despite that, SMEs, because they have a less formalized structure, tend to be less sophisticated in this area. This tendency is even more noticeable in management of family-owned SMEs. Hornsby and Kuratko (2003) concluded that HRM practices in smaller ventures (firms with fewer than 150 employees) have stagnated, or even regressed, over the last decade.

This factor might be explained because the cost of implementing HRM is high in terms of time and money, when compared with large firms (McEvoy, 1984; Reid et al., 2002).

According to de Kok and Uhlaner (2001), cited by Barret and Mayson (2007), “formal” HRM can mean that the procedure or practice is: written down (for example a list of skills and qualifications for jobs); regularly applied within an organization (for example, yearly performance reviews); or assured to take place (for example, employer sponsored training). The HRM practices that are usually found in small firms are simply due to operational needs and realistic concerns: record keeping; staffing activities, such as recruiting and selecting staff; and, to a lesser extent, motivation and retention activities, such as compensation and reward practices (Henemen and Berkely, 1999; Hornsby and Kuratko, 2003; Kotey and Sheridan, 2001).

On top of all that, it is recognized that, if a firm has the ability to develop unique and distinct “bundles” of HRM practices aligned with business strategy, it turns into a source of sustainable competitive advantage (Boxall, 1996; Dyer and Reeves, 1995). Small firms avoid HRM practices because many times the hiring process is based on informal contacts (for example family member, referrals or even walk-ins), but in order to sustain growth more formal methods to recruit employees should be established (Williamson, 2000). Besides, in small firms, the performance appraisal is non-existent or it tends to be very informal (Cassell et al., 2002, cited by Barret and Mayson, 2007) and used for monitoring and control rather than development purposes (Gilbert and Jones, 2000).

It is not a common practice for small firms to have a designated HRM (or employment) specialist, and accessing a specialist to give advice on that area is costly (Kotey and Sheridan, 2001). As the firm grows, it is recommended that HRM policies become more formalized, but the ability for this to take place in small firms depends on the recognition of the owner/manager of the need to delegate that task, and then the decision to actually delegate it.

While analyzing the literature on HRM practices in SMEs, one topic stood out, succession planning, which should be an important complement to the overall business plan. This study is focused on succession planning for SMEs, more concretely the family-owned ones.

3.2. Importance of Succession Planning in Small and Medium Enterprises

Small and Medium Enterprises are a crucial element for the Portuguese economy, representing 99.9% of all companies (INE, 2011), which is similar to what happens in the European Union, with 99.8% of small business, responsible for 68% of total employment (Matlay, 2000, cited by Sambrook, 2005). Small businesses have a major contribution to economic development and, at the same time, they generate employment within local communities and national economies (Smallbone and Wyr, 2000, cited by Sambrook, 2005). However, the failure rate of small firms is also important and, according to Gray and Lawless (2000), this constraint may be related to the career motivations and personal expectations of each small firm owner and manager, who are usually the same individual in a family-owned business.

“Succession planning can be defined as the attempt to plan for the right number and quality of managers and key-skilled employees to cover retirements, death, serious illness or promotion, and any new positions which may be created in future organization plans.” – Sambrook (2005, pp.580). This definition includes the exit strategy of an owner/manager, which may happen for several different reasons including a management buy-out.

Human Resource Development (HRD) is crucial for any company, but small organizations often lack any formal HRD infrastructure (Hill and Stewart, 2000). The lack of attention to strategic HRD in the short term will translate into a shortage of career pathing and, in the long term, into lack of succession planning (Beaver and Hutchings 2004, cited by Sambrook, 2005). However, small, forward-thinking firms are starting to implement succession plans for senior management, which allows the creation of a learning culture for

employees and helps build a development process (Sambrook 2005).

Considering that family-owned SMEs have a lower survival rate than non-family SMEs (Ibrahim *et al.*, 2003), training family members is crucial not only to improve their business skills, but, above all, to improve generational succession. Wang *et al.* (2004) argue that the most significant difference between family and non-family firms is the way in which executive succession occurs, and particularly the process of intergenerational family business transfer.

3.3. Relevant Factors in Succession Planning

During the succession planning, a major question has to be raised: “*How do you find people to succeed in the future?*” (Sambrook, 2005, pp.585), and choosing a successor is critical to the succession process (Chrisman *et al.*, 1998, cited by Wang, 2010). Succession planning is influenced by several factors that might distinguish an effective succession from one that is not effective, or simply not planned, which in a near future might lead to the failure of the company.

Propensity to retire: One of these factors, frequently seen on family-owned firms, is the propensity of the incumbent not to step aside, since often, as they own the firm, they feel like they can work longer, instead of admitting on an early stage that they should hand over the managerial decisions to the person who comes next. In this case, when the successor has already been identified, a misalignment may occur in terms of expectations of the two persons or due to lack of communication since the incumbent might be planning the succession but not have communicated that to the successor (Sharma *et al.*, 2003). This may lead to another problem, which is knowing if the chosen successor is willing to take over or not. Many times, owners of family firms assume that their offspring will take over the company upon the owner’s retirement, but it is crucial to ask if the potential successor wants

that responsibility or not. However, both parties agree on the importance of succession planning (Sharma *et al.*, 2003).

Successor willingness and ability: Finally another factor that is important for an owner to consider while planning succession is if the successor has the managerial and leading capability or not. It is natural for a family firm to welcome family members although that should not be a given right, but a deserved one. According to Stalk and Foley (2012), an emerging best practice when a family member wants a job within the company is for him/her to earn a college degree, to gain professional experience outside the family business and apply for open positions in non-competitors of the family firm. While this may not apply to all situations, the minimum that should be required in order to have a suitable successor is for him/her to be capable of contributing to the business, which sometimes does not happen (Kets de Vries, 1993).

The exclusion of daughters: *“Family Business succession is a process that is male dominated in the sense that it is generally biased against females – daughters in particular, but also any family member who is not male”* - (Wang, 2010, pp. 476).

At the time that a firm owner starts planning succession, naturally, the first successors the owner will think of are the descendants, but the succession is usually biased by gender, since female descendants are often excluded as candidates (Ip and Jacobs, 2006, Wang, 2010). According to Vera and Dean (2005), the percentage of daughters that is considered at the time of planning succession is less than 5%, which clearly shows this bias. This “exclusion” of female candidates is a waste of resources from the pool of family talent that the family business has (Le Breton-Miller *et al.*, 2004), especially considering SMESs, which represent the majority of family enterprises (Griffeth *et al.*, 2006 cited by Wang, 2010). Some authors even defend that daughters were only considered for family business succession in the absence of sons or when daughters were the first-born child (Garcia-Alvarez *et al.*, 2002

and Curimbaba, 2002, cited by Wang, 2010). Often, the daughter ends up being bypassed by her husband, the son-in-law (Royer *et al.*, 2008, cited by Wang, 2010). This exclusion of daughters might be so extreme that the family business might be sold off rather than passed to them (Wang, 2010).

Low survival rate on family business: It is widely recognized that family businesses tend to have a higher rate of failure than the remaining ones, and few family firms survive beyond the first generation, which is a generalized phenomenon, independent of cultural context or economic/business environment (Lee *et al.*, 2003). The average life expectancy of family firms is estimated to be twenty-four years, which is equivalent to the average working time of the founders at their company (Beckhard & Dyer, 1983, cited by Lee *et al.*, 2003).

Also, it is argued that the period when the company struggles the most, in order to keep running, is when the third generation is in control. Researchers suggest that only 30% of family firms in the U.S. survive into the second generation of family ownership and 15 to 16% into the third generation (Kets de Vries, 1993; Morris, Williams, Jeffrey & Avila, 1997).

Despite that, Sonfield and Lussier (2004) have researched the intergenerational differences among family firms, concluding that the first-generation in family businesses tend to do less succession planning than the second and third generations do.

These factors constitute the basis of analysis for the qualitative research in this work project.

4. METHODOLOGY

4.1. Sample and Data Collection

In order to carry the analysis for this project, a qualitative approach was chosen. Semi-structured interviews in family-owned SMEs were conducted to gather the data. Different industries were covered and preference was given to companies that showed availability for an in-depth interview with two different persons within the organization: the current

owner/manager and the successor or antecessor. The sample includes fourteen family-owned SMEs, two different representatives were interviewed at seven of these (Tecnórem, SA; Vigobloco, SA; PombalConta, Lda.; Vilarmóvel, SA; Alaço, SA; Fametal, SA; Madeca, Lda.) the current owner/manager was the only one interviewed at another seven companies (Ramiro Almeida & Filhos, Lda.; Marcant, Lda.; J. Justino das Neves, SA; Diamantino Malho & C.^a, Lda.; Lux Mundi - Empreendimentos Hoteleiros, Lda.; Vasco Filipe Perfeito - Empreendimentos Turisticos e Hoteleiros, SA; Margon, SA).

Table 1 presents the sample description. It was possible for me to do another interview using a very similar guideline with the former businessman and reference in the moulds industry Henrique Neto, co-founder of IberoMoldes, SA, who no longer manages the company and explained the reasons for selling his share instead of preserving the firm in the family.

Table 1 – Sample Description

FIRMS	INDUSTRY	OWNER/MANAGER	SUCESSOR/ANTECESSOR
Tecnórem, SA	Construction	Carlos Batista	Gonçalo Batista
Vigobloco, SA	Construction	Manuel Saraiva	Nélia Saraiva e Filipe Saraiva
Madeca, Lda.	Wood	Paulo Verdasca	Mário Verdasca
Vilarmóvel, SA	Furniture	Tiago Oliveira Faria	Tiago Vieira Faria
PombalConta, Lda.	Accounting	Pedro Domingues	Manuel Domingues
Alaço, SA	Metal Coverages	Gualberto Ferraz	Clarisse Ferraz
Fametal, SA	Metal Structures	Gualberto Ferraz	Sofia Ferraz
Lux Mundi, Lda.	Hotel	-	António Manuel Gonçalves
Ramiro Almeida & Filhos, Lda.	Textile	João Ramiro	-
J. Justino das Neves, SA	Metallurgy (Steel)	António Vieira	-
Diamantino Malho & C. ^a , Lda.	Chemical	Diamantino Malho	-
Marcant, Lda.	Marble	Sofia Pinheiro	-
Vasco Filipe Perfeito, SA	Hotel	-	Jorge Perfeito
Margon, SA	Ceramic	-	Miguel Silva Marques

Total Interviews: 22

In order to conduct these in-depth, semi-structured interviews, two different scripts were developed: one suited for the owner/manager of the company (Appendix 1) and the other for the selected successor/antecessor (Appendix 2). The differences between them resides in what is being asked: owners were asked about how they were planning succession (Candidates to succeed, required capabilities for that successor, only considering offspring or not), while successors were asked about the reasons why they were selected (Qualification to succeed; Pressures when taking responsibility for a family firm). Most of the in-depth interviews were taped (with exception of two interviewees that asked not to), transcribed and translated from Portuguese to English, in order to be used as content in this work project. Despite the wide range of topics that were present in the interview, for the purpose of this study, only one topic was analyzed: succession planning at SMEs.

5. RESULTS

“Advances in knowledge that are too strongly rooted in what we already know delimit what we can know.” (Gioia *et al.*, 2012, pp.16).

As mentioned in the methodology, this study was carried out by conducting in-depth interviews, which means qualitative research. Therefore, it was decided to follow a Grounded Theory approach, made possible through the creation and analysis of a data structure.

Firstly, in order to create a data structure, it was necessary to discover significant concepts (more general notion that highlights qualities that allow us to describe or explain a certain phenomenon of theoretical interest) that will lead to the building of a theory and will represent the 1st order constructs, in which the intent is to extract categories. These constructs were chosen by taking important aspects mentioned by the interviewees. After all interviews were reviewed and the 1st order concepts completed, there was a gathering of

common concepts in order to reach a theme that represents the 2nd order analysis. According to Gioia *et al.* (2012), this 2nd order analysis is based firmly on the theoretical realm, which allows asking if the emerging themes propose concepts that might be useful in order to describe and explain the phenomena we are spotting. Finally, after having a set of concepts and themes, an aggregation of 2nd order themes was done in order to reach aggregate dimensions. The data structure for this study is presented in figure 1 (page 20) which also depicts the relational dynamics among them (Gioia *et al.* 2012).

5.1. Succession Planning at SMEs: candidates and factors

“Planning Succession ahead should be part of the DNA of any family business. People have to think about these problems with time...” - (Madeca - Manager).

In the literature review, the importance of succession planning was highlighted alongside the many factors that need to be considered when planning the succession. From the interviews, three different groups were identified: i) owners/managers that are already planning succession or went through succession; ii) owners/managers that are not planning succession yet; iii) owners/managers that did not plan succession at all.

Due to the exploratory nature of this study, these groups do not constitute segments. As an alternative, they replicate the facts that emerged along the in-depth interviews. Also, in some occasions, some respondents can be identified with other groups regarding particular aspects.

The forward thinkers

“I am currently chairman of the board, in which both my children have seats. The succession was very natural: Nélia has been at the company for the past 14 years and Filipe for 8. I think that when the moment of my stepping back and have no active role in the company arrives, it will be natural for them to assume my duties.” - (Vigobloco – Owner).

This group is focused on companies that think about the future and started planning

succession in time to avoid problems ahead. The companies considered are the ones that recently went through succession and were successful and the ones that are already planning a succession. Regarding this second group, it does not mean that there will be no problem in the future, but at least they had the capacity to plan succession in order to minimize the possibility of those problems to become a reality: *“Guessing belongs to God... I cannot say whether or not they will continue the good work that has been seen for generations, but I know they will do their best! And when I left the company I felt they were ready and there was nothing else I could do to help them.”* - (Madeca - Antecessor). But planning succession is more than simply picking someone to assume the leadership of the company, which in a family-owned company could be the easy choice of a relative: *“There is a criteria when picking an executive: They must be loyal people, serious and have higher knowledge on the area they are called to.”* - (Tecnórem - Owner). Among all the interviews in this group, all the respondents said that being a relative was not the only factor that was important, that it was without any doubt a very important factor, but not the only one. *“Of course that I have all the pride that my children are taking the company’s management, but being my son and daughter was not sufficient condition.”* - (Vigobloco - Owner). Besides that, all the successors from this group that were interviewed truly believed that the choice was not based only on the fact that they were relatives, that their qualities as professionals were also crucial to that choice. *“Above all, I think we are the chosen ones to succeed him due to the fact that we are his children. And because it is a business he started and wants to leave it to his kids. This happens because it was the culture when our parents were raised: Work in order to provide for their kids what they did not have... But I think we have the competencies, or we would not even be part of the company, and he [the owner] recognizes that.”* - (Tecnórem - Successor). When considering candidates, the most obvious ones, when talking about family-owned business, are the children of the current owner. Despite that

daughters are considered less than 5% of the time for succession (Vera and Dean, 2005). When presented with this data, every respondent was very prompt to say that, for them, that would not be a problem, and some of them had even chosen a daughter as a successor. *“As a matter of fact both my brother and I only have daughters, but that was never a constraint.... It was not a problem at all, I’m not racist, and I hope something such as women’s exclusion never happens in this company”* - (Fametal/Alaço - Owner); *“All my children are working as managers at the company, here and in Angola. Dulce is already one of the managers and administrator in Angola, so with us that did not happened”* - (Vilarmóvel - Owner).

Furthermore, interviewees were asked if there could be a preference for sons-in-law over their daughters, since they are often expected to join the family business and can be viewed as natural candidates for succession even if they are less capable and competent than daughters (Lee et al., 2003; Simms, 1988), but in the forward thinkers group every respondent said that it would not be likely to happen: *“I would not be capable of choosing my son-in-law to leave my daughter out of that choice.”* - (Fametal/Alaço - Owner).

But candidates are not the only important thing to consider while planning succession. During the in-depth research it was also possible to study other factors (besides the family connection) that influence the decision process while choosing a successor, such as the importance of having a college degree or having professional experience, either within the company or in other companies: *“...Their capacities are a fundamental factor, as well as the knowledge on the business area, that both Nélia and Filipe have proved to have. Besides that, it is very important that they are capable of leading, given that we have 90 employees, and showing management skills...”* - (Vigobloco - Owner).

Having a college degree is considered by almost every respondent as a crucial factor: *“For me, merit has to be the only factor that really matters. Having a college degree nowadays*

is the expected and most natural thing to happen, despite that there are many companies with managers that only have the 4th grade and do a wonderful job, and when managers with a college degree take on that same company, many times, end up ruining it.” - (Pombalconta - Antecessor); “Maybe if we had not studied there would have been more limitations regarding the professional tools that we would have, and probably it would be hard to manage the company. Nevertheless, it is not a “sine qua non” condition that to be a good manager you need to have a management or a law degree. For example, one of my brothers is a lawyer and the other an engineer, I am the only one in management. More and more, I realize that you do not need a management course in order to run a business, you need to have common sense and ideas.” - (Lux Mundi - Successor).

Regarding the professional experience, it is not consensual if the successor should build his/her carrier inside the company or should gain experience in other companies and then assume a leadership position at a closer moment of assuming the management of the company: *“On my opinion it is good to try other companies. Get to know other places, do other things and then engage to the company with body and soul. If you are a good manager in a ceramic industry, you will also be a good manager in a bank.” - (Madeca - Manager); “In my opinion, more important than working for a lot of years in the company, it is to have several years of experience from other companies, even though that did not happen with me. Although I think that after several years it will all be the same, but being the son of the boss is very different... I really thought of going to another company; I even went to interviews, but there was a need of help at the company and I stayed within my family firm.” - (Tecnórem - Successor).*

The laggards in succession planning

“I question myself about the future of the company... it will not close for sure, but the future is still uncertain, what can happen is that the company continues with any of my

sons-in-law or for the family to continue as shareholders, gaining dividends due, and gets integrated in some multinational company.” - (J. Justino Neves - Owner).

This group is focused on companies that keep delaying the succession planning process. This happens due to many factors, such as the owner feeling like he still has the perfect capacity to lead, the non-existence of a suited candidate within the company that fulfills the criteria wanted by the owner and, finally, because no one of the family has shown availability/desire to take the leadership of the company. The three respondents from companies in this group also talked about the criteria to choose candidates and the factors that affect the succession planning process. On what regards the candidates, all the respondents state that it would be an honor to see the company continue within the family, but that spirit is not enough, since there are many other aspects that are imperative to consider. “*...I have a daughter that already talked on her willingness to carry on the family business... the company has been through some financial difficulties and while I don't feel that things around here are on a good path, in a natural way and with positive results that allow to make a living out of the company, obviously I have no interest in transferring that burden to my children, that is not what I want for their future!*” - (Ramiro Almeida & Filhos - Owner).

Even though the successor is yet to be defined, the respondents were once again presented with data and facts regarding the exclusion of daughters in this process. Once again, as it happened in the first group, most of the interviewees said this was not a problem at all: “*No, it would not be a problem at all, not for me...My daughter is finishing a Masters in an economic area and she already talked to me about the company, but I would prefer her to start working elsewhere since I believe she has the skills for that. And then, if she still has the interest and the company is still a feasible option, I would be very happy for her to come and start at the company.*” - (Ramiro Almeida & Filhos - Owner).

Despite saying it was not a problem, for one of the respondents he never saw his daughter as a candidate to take the leadership of the company: *“I never thought on her to succeed, despite the fact that she had to leave the country in order to get a job... While she was looking for a job, she still helped during some afternoons, but I have never done a big effort for her to join the company.”* - (Diamantino Malho & C.^a - Owner).

Besides that, in this group there was one interviewee that said for him, sons-in-law were not distinguished from daughters, they were family. And considering the industry the company was part of, maybe a male figure would be the best option. *“For me there is no distinction between sons and sons-in-law! By being family, I meant being family... But as I usually say, you have to see to believe. A fact is that the steel industry is extremely male chauvinist, for example in the industry’s largest world fair, in Dusseldorf, 98% of the people are men! To work as a manager, obviously that you can do it either with men or women, but this is not dealing with wool, it is not about dealing with diamonds, jewelry... It’s dealing with steel!”*- (J. Justino das Neves - Owner).

Regarding the factors that were crucial to take into consideration at the moment of choosing someone capable of taking over the company, the respondents in this group were vague since their options regarding the successor are wide open: *“For me a successor should work at all the sectors of the company in order to know how this works.”* - (Diamantino Malho & C.^a - Owner).

Given that the delay in planning succession was due to the lack of feasible candidates within the family, the owners were asked about others possibilities, such as professional management of the company, but still holding the ownership within the family, or even to sell out. The respondents said that it is a serious possibility to professionalize the management but holding the ownership, since it would still be a family-owned firm and, as long as it was well-managed, it could continue to distribute profits to the shareholders: *“I*

accept that a professional manager ends up running the company... ” - (J. Justino das Neves - Owner);

“If I recognized that my nephew does not have the skills to run the company, I would suggest to the administration a professional manager... I am really not contrary to a situation like that, my nephew will have his opportunity, and if he does not show the necessary competencies, in my opinion it will be best to adopt a solution such as that. It would really be a shame for a company that grew and increased its value over the years to be “destroyed” just because the management should be within the family since it will tear apart not only my job, but that of the previous generations.” - (Diamantino Malho & C.^a - Owner);

“The family will always keep their share, unless they want to sell of course, and that will generate profits. And there are general meetings that will allow to see if the company is being well-managed or not.” - (J. Justino das Neves - Owner).

The avoiders of succession planning

“There was no succession planning at all! My grandfather was a very proud person, but he got very sick in January and died in March; it was all very fast. He never thought he would die so fast and he never had the capacity or the will to think about succession.” - (Marcant - Owner).

The third and final group represents the companies at which there is/was not a planned succession or thought about the outcomes for the company. The companies in this group had an owner that was the manager of the company and, by the time they passed away, there was no succession planned, which led to problems, not only at a managerial level, but for the company as a whole. The interviewees were managers of the company at the time this drastic changes happened, and even though they worked in order to assume the leadership, the decisions were not in that direction.

“My grandfather passed away and the decision was up to my grandmother. She decided to put my uncle (her son-in-law) managing the company but things have not worked out because he lacked the knowledge for this area, it was not the same person as my grandfather. And by then there was a decline period at all levels for the company... I got a nursing degree but later on, while working at the company by day and studying by night, I decided to get a management degree in order to be capable of succeeding, and that was the reason why I started working here. I went to management because of the company, but my grandmother never gave me the power to decide anything.” - (Marcant - Owner).

“My father passed away in 2008; a natural process of succession had not been properly defined. I mean by the moment we knew he had a terminal disease, a preparation of the process should have been done but it did not happen. In a way, we kept the structure we had while my father was president and the only thing that happened was my mother taking over the presidency. When I say she was the president, it was in a virtual way, since she knew very little or nothing about the company.” - (Margon - former successor).

The lack of planning proved to work out very poorly for the companies, since after this absence of a leader the companies faced serious problems and hard times to recover.

Summary: This study indicates that for the different groups there are different candidates, as well as factors, to consider when planning succession. The **Forward Thinkers** proved to be one step ahead and had already thought about the succession process or had gone through it: All of them had as a successor a direct family member, without differentiating a male or a female successor, and the main factors to consider were the management skills, experience and having a college degree. The **Laggards** despite not having a selected successor yet, showed concern on that matter and are considering not only children to succeed (both male and female) but also other family members and, if necessary, they recognized that having a professional manager can be a solution for the succession of the

company. Experience is one factor that all the respondents considered crucial whatever the choice. Even with all this thought about it, there is no decision yet and that creates an uncertainty regarding the continuity of the firm. Finally, the **Avoiders** represent companies that did not plan succession and faced the problems that it brought to the company. As the Forward Thinkers, this group considers experience and having a college degree as crucial factors when choosing a successor (even though that might not have happened). The candidates considered were family and non-family and the owners recognized that a professional manager could have been the most suited choice given that there was no succession planning.

6. DISCUSSION

6.1. Conclusions and Implications

The purpose of this study, as initially explained, is to determine the importance of succession planning in SMEs. The results of the qualitative analysis allow us to reach some conclusions.

Throughout the analysis of the data structure, it was possible to develop a grounded theory since there are three main aspects to consider when planning succession at SMEs: Management competencies as requirement; Criteria for choice of successors; Continuity of the company. These are the aggregated dimensions and are presented in figure 1 below.

However, it is important to say that these three aspects have to be analyzed in a specific order since one will have an impact on the following and so on.

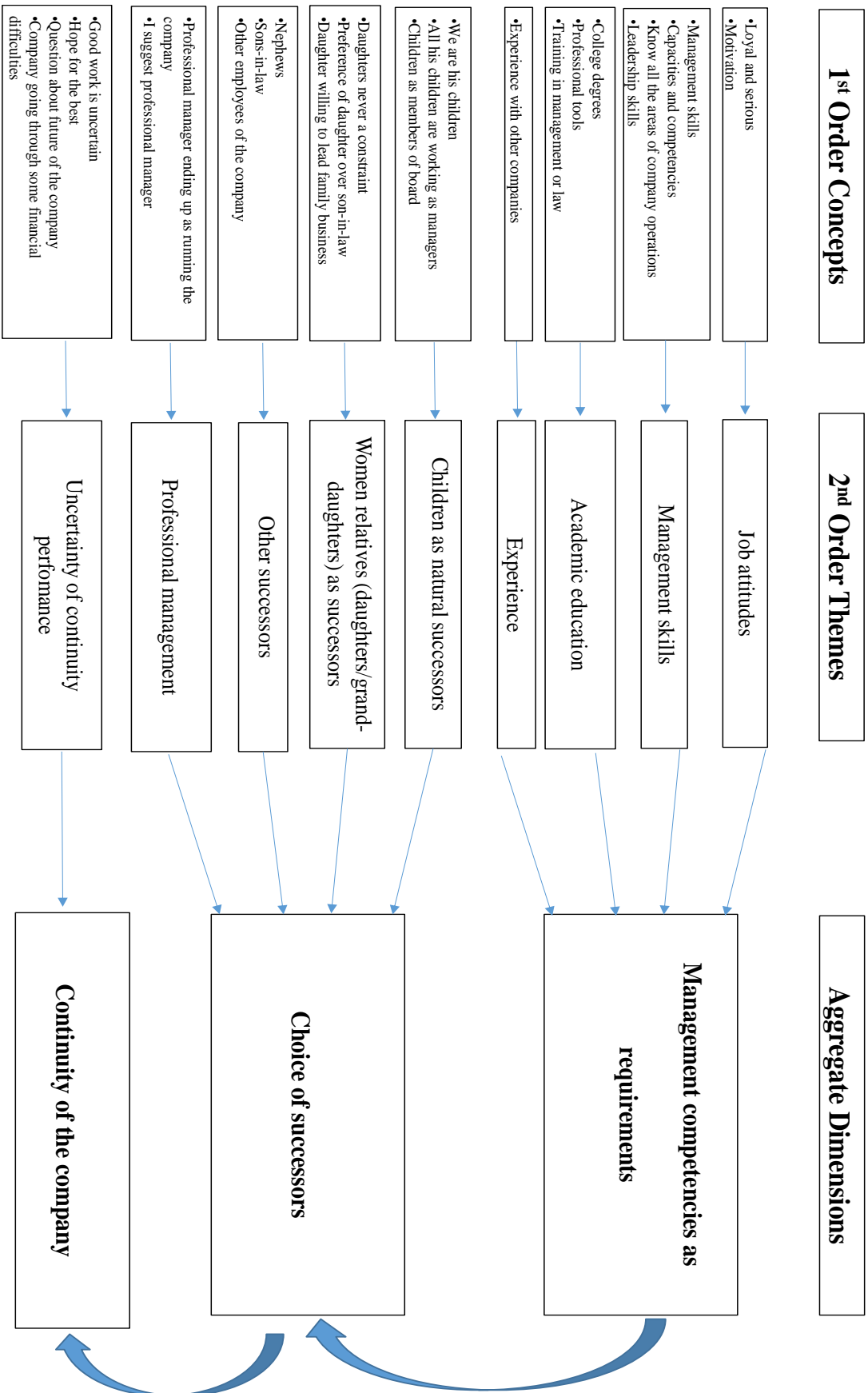


Figure 1 – The succession process in Portuguese family-owned SMEs

The first dimension to analyze is Management competencies as requirement. This dimension was generated through four different themes (2nd order): Job attitudes, Management skills, Academic education and Experience. The first theme, job attitudes, was obtained by the combination of two 1st order concepts, “loyal and serious” and “motivation”, and represents the attitudes towards the job that is expected from someone who will succeed to a managerial position. The second theme was management skills, and was one of the most frequently mentioned by the interviewees, since it was something considered crucial in order for a successor to be given the management of the company. There were four concepts highlighted such as management skills, capacities and competencies, knowing all the areas of the company and having leadership skills. The third theme is academic education that gathers the concepts of having college degrees, having professional tools and having training in management or law. Finally, the fourth, and last, theme of this aggregated dimension was experience, in which respondents mentioned the importance of having experience, but giving preference to experience with other companies.

Having considered the criteria for choice of successors the next step is to see who can succeed. The second aggregated dimension obtained is Choice of successors. Similar to the first dimension, this one was obtained by grouping four different 2nd order themes: Children as natural successors, Women relatives (daughters/grand-daughters) as successors, Other successors, Professional management. The first theme, children as natural successors, was generated from several concepts: “We are his children” was a common response that some of the successors gave when asked about the main reason for them to have been chosen. Another concept that led to this theme was taken out of one interview in which the respondent said: “All his children are working as managers”. But overall all children appear as natural successors, with one or two exceptions that chose sons-in-law, or even an employee of the company. The second theme in this aggregated dimension is women

relatives (daughters/grand-daughters) as successors and has as defining concepts: daughter never being a constraint, the preference of daughter over son-in-law, and when a daughter is willing to lead the family business. The third theme is other successors when owners consider non-relatives to succeed in the business management, such as nephews, sons-in-law or even other employees of the company. One of the respondents gave the example that when her grandfather (previous owner of the company) passed away, her grandmother was responsible for making the decisions, and even though she went to get a college degree in management, after she had already earned one in nursing, with the intention of succeeding, she was never a valid option for her grandmother. At a first stage, her grandmother chose her son-in-law and, when he left the company, picked up an employee of the company that had no management background even though her granddaughter was working at the company and had already finished her management degree. Later on, this interviewee and current owner of the company decided to buy the company from the grandmother and other heirs, and since then she has managed to recover the company that suffered great losses while the management was held by two “outsiders” of the family. The final theme is professional management and was generated given the related concepts of having a professional manager ending up running the company and another interviewee that said he would suggest a professional manager.

This dimension follows the first given that first you should think on the managerial competencies required for someone to step up and only then is it time to think about the “who” question.

Finally, the third aggregated dimension was the continuity of the company, since there might be doubts regarding the continued performance of the company at the time the manager leaves. Contrary to the previous dimensions, this is only supported by one theme that is the Uncertainty of continued performance. Some interviews have excerpts that highlight this

uncertainty: Good work is uncertain; hope for the best; question about future of the company or even the fact that the company is going through some financial difficulties. Overall, this dimension is about considering the continuity of the company, because even if the planning of succession is done meticulously there might be a lot of factors that might not allow the successful continuation of the company. This should be the last aggregate dimension since you first need to consider the other two and then somehow question whether it is worth it to go through with the succession, since the company might not survive that process even if meticulously prepared, and that will imply a reflection on continuing with the firm, either with a manager from the firm or a professional manager, to sell it out or even close it if it is the best solution.

Implications

Succession planning is crucial for any SME, even more if family owned, since it will improve the probability of future success. According to the data presented in results and discussed above, the group of companies that already planned succession (Forward Thinkers) proved to have the capacity to continue the normal activity, while the group of companies that did not plan at all (Avoiders) faced the opposite situation. It is important to start thinking on succession at an early stage since a lot might happen including unpleasant surprises such as serious illnesses or even death, as presented in some interviews. This planning should be adopted considering the aggregated dimensions presented as the 1st and 2nd order themes that each dimension has.

6.2. Limitations

The nature of the data constitutes a major limitation of this study. The sample size is small, having reached a total number of 22, and considering that it was necessary to do a division between owners/managers and successors/antecessors this number can be seen as a limitation of the study. However, the fact that each respondent was selected trying to

approach different industries and succession situations allowed to obtain higher insights and three different groups regarding their current situation of succession planning.

Conclusion

In this study, the family succession process at family-owned SMEs was analyzed using a qualitative methodology.

With respect to the current level of planning the succession process, it was possible to identify three groups of companies. The Forward Thinkers representing the companies where succession had been or is being considered and done. The Laggards are the companies where the process is not being considered yet, but the owners think they will consider it in the future. Finally, the Avoiders are those companies that did not plan the succession and, therefore, the succession was forced and unplanned, with negative consequences for the companies.

Moreover, considering the themes that emerged from the interviews, the succession planning process in family-owned SMEs in Portugal is presented as encompassing 3 sequential phases. The first phase is to consider the criteria that are considered as requirements for the successor to be chosen, which includes job attitudes, management skills, academic education and professional experience. Only then are owners able to make the decision regarding potential successors. These include, first, the children and then other individuals. Contrary to the mainstream literature, the Portuguese owners do not discriminate against women as successors. The third phase considers the uncertainty that, notwithstanding the possible careful planning of the succession, still surrounds the change process, leading to the possibility of terminating the company.

The main contribution of this work project lies in the qualitative nature of the data, from a group of Portuguese family-owned companies, leading to a systematic description of the succession planning process and the importance it has for the continuity of the firm.

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